

THE IMPACT OF BUDGET REFORMS AND THEIR  
HISTORICAL RELATIONSHIP TO PLANNING, PROGRAM-  
MING, BUDGETING IN THE DEPARTMENT OF DEFENSE

by

Thomas Rodney Stuart



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By

Thomas Rodney Stuart

Bachelor of Science

United States Naval Academy, 1951

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Business Administration of The George Washington  
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Master of Business Administration

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Thesis directed by

Stephen R. Chitwood, Ph.D.

Assistant Professor of Public Administration



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## INTRODUCTION

The Federal budget is considered by many to be the key instrument in the formulation of national policy, for it is through the budget that the country decides what services will be provided through government and what areas will be left to private choice. When Congress enacts the budget into law it is determining for its constituency what government services will be financed at the federal level rather than at the state or local level; in terms of what program and at what cost. Further, the budget serves as a primary instrument of fiscal policy to ensure the stability and growth of our economy. As a result, the budget has become a document that exerts a major influence on the decision-making process in the federal government.

It is of primary importance that the agencies of the federal government participate intelligently in making the major decisions that focus on the budget; the overall size of government; emphasis on different government programs intended to benefit the country; the efficiency and effectiveness of these programs; and the fiscal policies designed to promote national prosperity.

The implementation in 1962 of planning, programming, budgeting in the Department of Defense created a new



benchmark for sophistication in the management of government. The development and implementation of this new system is usually attributed to two men, former Secretary of Defense Robert S. McNamara and his Assistant Secretary of Defense (Comptroller), Charles J. Hitch. In their view the system was not to be looked upon as a decision-making device but rather as a means by which better decisions might be made. The new process was used in the preparation and presentation to the members of the Armed Services and Appropriations Committees of the fiscal year 1963, 1964, and 1965 defense budgets.

In August 1965, all agencies of the federal government were instructed by Presidential executive order to develop and implement planning, programming, budgetary systems. In President Johnson's words, this system would enable public decision-makers to:

- (1) Identify our national goals with precision and on a continuing basis;
- (2) Choose among those goals the ones that are most urgent;
- (3) Search for alternative means of reaching those goals most effectively at the least cost;
- (4) Inform ourselves not merely on next year's costs, but on the second, and third, and subsequent year's costs of our programs;
- (5) Measure the performance of our programs to insure a dollar's worth of service for each dollar spent.<sup>1</sup>

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<sup>1</sup>Lyndon B. Johnson, "Statement by the President to Members of the Cabinet and Heads of Agencies, August 25, 1965," Weekly Compilation of Presidential Documents, Vol. I, August 30, 1965.



The President's judgment stemmed from the successful introduction of systems analysis in the Department of Defense where cost effectiveness studies were applied to major departmental decisions in the consideration of and choice among competing alternatives. Precedence for this approach within the Department of Defense could be found in the decision-making process for public expenditure projects in the water resources budget, where evaluation by cost-benefit measurements had been conducted since the mid-1930's.

Since the inception of the planning-programming-budgeting system, there has been continuing discussion and debate on program analysis and the analytical techniques utilized in the PPB system approach. Further, many have argued that the ideas inherent in PPB do not reflect a radical change in our approach to the budgetary process.

It is the purpose of this paper to trace historical budget reforms to determine their relationship to planning, programming, budgeting within the Department of Defense. An investigation of the significant stages in the evolution of our budget process will be accomplished by analyzing significant budget reforms.

Emphasis is directed toward the impact of these reforms on agency budget procedures in order to provide an understanding of the current planning, programming, budgeting system within the Defense establishment. Areas in which research has been accomplished for this study include Acts



of Congress, Presidential directives, special studies and commissions as well as past budgetary and fiscal policies. In this respect, the period 1945-1970 has been stressed as the area of particular interest, for it was with the advent of the Cold War, coupled with advancements in technology resulting from the unprecedented research of World War II and the increases in dollar costs associated with implementing the potential they created, that there arose repeated calls for economy and efficiency from the American public. In this atmosphere President Truman expressed his belief that "we should integrate our strategic plans, our budget, and the military program."<sup>1</sup> While the initial legislation as enacted fell far short of these goals, the 1947 reorganization of the military establishment under a Secretary of Defense authorized to establish broad policies and programs can still be considered a major step toward budget reform. It was to have an impact on the budgetary process within the Department of Defense and would lead to the existing centralization of financial power in the Office of the Secretary of Defense.

Since the planning, programming, budgeting process presently in effect in the Department of Defense is directly related to the budget reforms in the federal government, this paper is organized to reflect the legislative enactments, executive directives, and related procedures

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<sup>1</sup>C. W. Borklund, The Department of Defense (New York: Frederick A. Praeger, 1967), p. 16.





which created the environment for reform. A further objective is to analyze the developments that have occurred since adoption of the planning, programming, budgeting approach with the focus directed toward a conclusion as to the status of the system as it exists today.

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## CHAPTER I

### EARLY STAGES OF BUDGET POLICY, 1798-1921

#### Formative Years

There are many definitions and characteristics which have been used to identify the federal budget process. A most general definition is that budgeting is concerned with the translation of financial resources into human purposes.<sup>1</sup> Inherent in this definition are the implications that the budget is a planning document, a contract between the President, Congress and the agencies of the government, a central mechanism for mutual obligations as well as a focus of social, economic and political efforts. Our current budget system can be viewed as a product of these complex associations that emerged from the budget process as it developed during the formative years in our government.

At the time of the American Revolution the budget system in Great Britain had not been fully developed. However, the roots of the British system are founded in Parliamentary control over the Crown. No individual could be compelled by the Crown to make any gift, loan,

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<sup>1</sup>Aaron Wildavsky, The Politics of the Budgetary Process (Boston: Little, Brown & Co., 1964), p. 1.



benevolence, or tax without the consent of Parliament. While the Parliament reserved the right to authorize all expenditures, it did not at that time extend its authority over the purpose of expenditures. The details of expenditures were gradually controlled and specified. As a point of interest, this specification extended first to the army, the navy, and ordnance.<sup>1</sup>

The framers of the Constitution also saw the need to provide a means for exerting control over the executive branch through the appropriation process. As a result, the Constitution requires that "no money shall be drawn from the treasury, but in consequence of appropriations made by law; and a regular statement and account of the receipts and expenditures of all public money shall be published from time to time."<sup>2</sup>

Since the financial resources available to the Continental Congress during the Revolution were inadequate, upon ratification of the Constitution the Congress initiated efforts to provide a responsible financial system. Passing a statute establishing a Treasury Department in 1789, Congress required that the Secretary of the Treasury prepare and report estimates of public revenue and public expenditures. It was not until 1800 that a supplement to this

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<sup>1</sup>Jesse Burkhead, Government Budgeting (New York: Wiley & Sons, Inc., 1956), p. 5.

<sup>2</sup>U.S. Constitution, Art. 1, sec. 9.



statute directed the Secretary to implement a planning function through the submission of plans for improving or increasing the public revenues.<sup>1</sup>

### Legislative Supremacy

As previously indicated, the Constitution was not specific as to a system for the effective management of the finances of the federal government beyond the requirement that all revenue measures must originate in the House of Representatives. In the formative years, Alexander Hamilton, the first Secretary of the Treasury, assumed a strong executive leadership in financial matters. Through Hamilton's genius and direct personal administrative initiative the country was lifted from bankruptcy, its credit established, and its revenues secured. By initiating and supervising the execution of all financial programs, Hamilton had assumed the responsibilities of the legislature and was in effect receiving a "rubber stamp" from the Congress on his policies.<sup>2</sup> During this period the relationships between Cabinet officials and members of Congress were particularly direct and personal in nature.

However, with the presidency of Thomas Jefferson, the separation of Cabinet officials from the day-to-day

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<sup>1</sup>Burkhead, Government Budgeting, p. 9.

<sup>2</sup>Joseph P. Harris, Congressional Control of Administration (Washington: The Brookings Institution, 1964), p. 49.





work of Congress was accomplished. The establishment of the House Ways and Means Committee in 1802 marked the end of continuous executive direction of government financial affairs. Both revenue and appropriation authority were concentrated in this Committee. The executive responsibilities in financial matters were viewed by Congress as one of reporting only, with the Secretary of the Treasury accomplishing this function by classifying the expenditure proposals and submitting them to the Congress.<sup>1</sup> During the period 1802-1865, Congress was provided an opportunity for a comprehensive review of the government's finances through the hearings of the Ways and Means Committee, where each government agency appeared and provided testimony. Such unity in the review of the budget began to dissipate in 1865, with the establishment of the House Appropriations Committee. By 1885, the authority to recommend appropriations had been vested in eight House committees. Later this was increased to ten. Similarly, the Senate delegated appropriating authority to eight of its committees.<sup>2</sup>

Although it was becoming more difficult for the members of Congress to obtain a clear picture of government expenditures, the supremacy of the legislative had nevertheless been established. That this was the overriding

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<sup>1</sup>Arthur Smithies, The Budgetary Process in the United States (New York: McGraw-Hill Book Co., Inc., 1955), pp. 53-54.

<sup>2</sup>Burkhead, Government Budgeting, p. 11.



consideration is reflected in Arthur Smithies' analysis of the budget process:

. . . It is essential to realize that traditional budgetary procedures have grown out of efforts by Congress to control the Executive through the device of highly specific appropriations rather than the consideration of the requirements of an effective budgetary process.<sup>1</sup>

A further reason for Congressional increases in appropriations committees was that the years from 1880 to the early 1900's marked a period of extreme fiscal irresponsibility on the part of Congress. During the years following 1789 the government had the problem of how to legally expend the surpluses which accumulated in the Treasury. The Federal Government was small and the revenues from customs and tariffs far exceeded the expenditures. As viewed by Lewis Kimmel:

. . . the abundance of customs revenue during most of the nineteenth century made it unnecessary to weigh expenditures and revenues and brought about a progressive deterioration of the budget process.<sup>2</sup>

However, the era of federal surplus was to end abruptly and not return again for any length of time. Of the sixteen fiscal years between 1894 and 1909, ten were years the government incurred a deficit.<sup>3</sup>

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<sup>1</sup>Smithies, Budgetary Process, p. 49.

<sup>2</sup>Lewis H. Kimmel, Federal Budget and Fiscal Policy, 1789-1958 (Washington: The Brookings Institution, 1959), p. 15.

<sup>3</sup>Burkhead, Government Budgeting, p. 16.



Congress' failure to meet its responsibilities in transacting government business by insuring efficiency and economy in government quite naturally bred indifference on the side of the executive. Lucius Wilmerding described the actions of the executive branch as follows:

The departments governed their expenditures by the amounts of the estimates rather than by the amounts of the grants. If in any case less was granted than was estimated, the department or bureau affected, instead of revising its plans for the coming year to bring them within the financial limits of the reduced appropriations continued them without change in perfect confidence that Congress would appropriate supplementary sums when they were requested rather than stop the service.<sup>1</sup>

Congressional efforts to control expenditures and curb deficiencies were unsuccessful. The passage of the Anti-Deficiency Act of 1906 was supposed to prevent deficiencies by a system of apportioning appropriations through the fiscal year. The practice met with only limited success from a generally lax and inadequate financial administration.<sup>2</sup> This experience supports the contention that a system of budget execution intended to prevent deficiencies or effect savings as programs are administered cannot be successful when imposed unilaterally by the legislature and lacks the cooperation and authority of the executive.

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<sup>1</sup>Lucius Wilmerding, Jr., The Spending Power (New Haven: Yale University Press, 1943), p. 140.

<sup>2</sup>Burkhead, Government Budgeting, p. 345.



Commission on Economy and Efficiency

With the advent of increased expenditures by enlarged government activities and the existence of the deficit, increased public attention was directed toward the manner in which the government expended and accounted for its funds. In 1910, President Taft appointed a Commission on Economy and Efficiency in Government. The purpose of this Commission was to examine the fiscal and financial operations of the federal government and to provide Congress with recommendations for improvement.

With its responsibilities broadly conceived, the Commission undertook investigation of five major areas over the succeeding two years.<sup>1</sup> They included examination of (1) the budget as an annual financial program, (2) the organization and activities of the federal government, (3) personnel problems, (4) financial records and accounts, and (5) business practices and procedures in the government. After nearly two years of study and research the Commission completed the first comprehensive study of the federal budgetary process and provided the foundation for all subsequent thought on the subject.<sup>2</sup>

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<sup>1</sup>Ibid., p. 18.

<sup>2</sup>U.S., Commission on Economy and Efficiency, The Need for a National Budget, 62d Cong., 2d sess., 1912, H. Doc. No. 854.





Not only were the report of the Commission on the Need for a National Budget<sup>1</sup> and the President's message to Congress on Economy and Efficiency in the Government Service<sup>2</sup> significant in the development of the budget system in the federal government, but of greater significance was the fact that these documents reflected an assumption that the President should be responsible for financial planning and management within the government. Taft stressed the need for establishing a national budget system as a means of executive management and control. The Commission proposed, first, a comprehensive executive budget, where previously none had existed; second, classifying the budget in terms of programs versus functions, and additionally a classification based on the distinction between capital and current items; and third, a systematic review of the budget after its implementation.<sup>3</sup> In subsequent chapters mention will be made of these same recommendations in connection with the establishment of the budgetary procedures called for under the existing system within the Department of Defense.

Conceptually, the Commission conceived the budget as serving a threefold purpose: to be a document for

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<sup>1</sup>Ibid.

<sup>2</sup>U.S., President, Message of the President of the United States on Economy and Efficiency in the Government Service, 62d Cong., 2d sess., 1912, H.Doc. 458.

<sup>3</sup>Arthur Smithies, "Conceptual Framework for the Program Budget, Program Budgeting, ed. by David Novick (Washington, D.C.: Government Printing Office, 1965), p. 31.



Congressional action; to be an instrument of control and management by the Chief Executive; and to be a basis for the administration of departments and agencies. On the last point, the Commission stated:

In order that he [the Administrator] may think intelligently about the subject of his responsibility, he must have before him regularly statements which will reflect results in terms of quality and quantity; he must be able to measure quality and quantity of results by units of cost and units of efficiency.<sup>1</sup>

As a result, the format of the budget incorporated in the Commission's report included an itemization of activity schedules as subdivisions of departmental and agency expenditures.

A constitutional issue arose that was a point of concern to the Commission. At issue was the question of how a budget system would fit into the governmental structure based on a separation of powers. In considering this point the Commission suggested that the budget system was based on the constitutional theory of trusteeship. The government was viewed as the trust instrument, the government officials as the trustees, and the citizens as the beneficiaries and creators of the trust. The President, as the senior trustee, should be responsible for the budget. The heads of the departments and agencies would transmit data to the President in the format that he prescribed, with the Secretary of the Treasury assisting the President in discharging his

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<sup>1</sup>U.S., Commission on Economy and Efficiency, Need for a National Budget, p. 164.



obligations. The Commission felt that the budget was the only effective means whereby the President could be made responsible for getting a definite, comprehensive, and well evaluated program before the people.<sup>1</sup>

Although the Commission laid the foundation for all subsequent reforms, the political climate of the times did not permit action. The elections of 1912 resulted in defeat for President Taft as well as any hope for implementing the recommendations of the Commission. In fact, "The report was not even considered by the Appropriations Committee of the House of Representatives to which it was referred."<sup>2</sup> Furthermore, financial pressures had been eased with good business conditions, and with the passage of the sixteenth Amendment, the government had an additional source of revenue from the personal income tax. The fact that the work of the Commission on Economy and Efficiency led to no immediate legislation can also be viewed as an indication of the extreme deliberation with which the Congress enacts proposals for reform. Aaron Wildavsky, in appraising the hesitancy to change exhibited by Congress, has said:

The tradition of reform in America is a noble one, not easily denied. But in the matter of Congress and budgetary procedures it is better to identify your proposal (for change) as a revision or amplification of present policy. These terms seem not to carry with them the quality which dooms most proposals calling for

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<sup>1</sup>Burkhead, Government Budgeting, p. 20.

<sup>2</sup>Kimmel, Federal Budget and Fiscal Policy, p. 4.



changes in a system with which they [Congress] are fully acquainted.<sup>1</sup>

Efforts to establish a national budget system were not undertaken again until after World War I. However, when viewed in retrospect, the work of the Taft Commission contributed greatly to the eventual passage of the Budget and Accounting Act of 1921.

#### The Budgeting and Accounting Act of 1921

The continued sense of frustration involved in efforts both to control estimates and to give adequate review to expenditures, coupled with the policy of retrenchment in government spending following World War I, caused the Congress again to address the subject of economy and efficiency in government. The approach taken was three-fold: (1) fixing executive responsibility for the estimates submitted to Congress (budget formulation), (2) creating a new governmental instrument for the audit of executive accounts, primarily responsible to Congress, and (3) internal consolidation of the Congressional budget system.<sup>2</sup> Congress had become particularly interested in accounting control as a means to economy and had come to regard budget execution as equally as significant as budget formulation.

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<sup>1</sup>Wildavsky, Politics of the Budgetary Process, pp. 131-32.

<sup>2</sup>John S. Saloma III, The Responsible Use of Power (Washington, D.C.: American Enterprise Institute, October, 1964), p. 9.





The House Select Committee, established in 1919 to study the federal budget system, expressed the rationale for the creation of the executive budget and a special budget staff in these terms:

. . . the estimates of expenditure needs now submitted to Congress represent only the desires of the individual departments, establishments, and bureaus . . . . These requests have been subjected to no superior revision with a view to bringing them into harmony with each other, to eliminating duplication of organization or activities, or of making them, as a whole, conform to the needs of the Nation as represented by the condition of the Treasury and respective revenues . . . .<sup>1</sup>

Congress approved and sent to the President the first Budget and Accounting Act in 1920. Incorporated in the bill was the establishment of a General Accounting Office, to be headed by the Comptroller General. The President would have the power to appoint but not remove him from office. President Wilson vetoed the first bill on the ground that constitutionally appointment and removal power could not be separated. With the return of the Republicans to office in the national elections in the fall of 1920 and President Harding's promises for putting the government on a sound business basis, the Budget and Accounting Act became law on June 10, 1921. Under the final provisions of the Act, the President was vested with the responsibility for transmitting the national budget to Congress each year at the beginning of the session. He was further authorized to submit supplemental estimates at his discretion provided they were made

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<sup>1</sup>U.S., Congress, Congressional Record, 66th Cong., 1st sess., October 17, 1919, p. 7083H.



necessary as the result of laws enacted after the initial transmission of the budget, or were otherwise determined to be in the public interest.

The creation of the Bureau of the Budget as the staff agency to assist the President, and the establishment of the General Accounting Office responsible to Congress, are viewed as the major significant changes in governmental financial management resulting from the passage of the Budget and Accounting Act. The Bureau as the President's agent was given the authority to "assemble, correlate, revise, reduce or increase"<sup>1</sup> the estimates provided by the departments and agencies. The GAO was empowered to "investigate all matters relating to the receipt, disbursement, and applications of public funds" and to provide Congress with "recommendations looking to greater economy or efficiency in public expenditures."<sup>2</sup>

A reflection of the atmosphere and the public attitudes of the times toward the new budget system is contained in the statement of General Charles Dawes, the first director of the Bureau of the Budget, to President Harding:

I wish to say to you, sir, that the men before you realize the cares and perplexities of your great position. They realize that at this time the business of our country is prostrated, that men are out of employment, that want and desperation stalk abroad, and that you ask us to do our part in helping you

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<sup>1</sup>U.S., Congress, Budget and Accounting Act of 1921, sec. 207.

<sup>2</sup>Ibid., sec. 312.



lift the burden of taxation from the backs of the people by a reduction in the cost of government.<sup>1</sup>

Important to this analysis of budget reforms is that while the Budget and Accounting Act of 1921 required the submission of a comprehensive executive budget, this was to become an essential step in achieving the comparison of alternatives in the executive budget, the Act left departmental budgets and procedures for preparing them unchanged.<sup>2</sup> The budget cycle concerned itself with the objects of the expenditures and failed to direct the attention of budget proposals to the program for which the money was being expended or the function with which it was concerned. Consequently, it was impossible to determine the magnitude of government expenditures for programs because funds had been appropriated under numerous appropriations for specific items unrelated to the programs under which they were to be expended. Nevertheless, the control process is an important factor in program budgeting. Although the program budget would not be implemented until the early 1960's, the establishment of an executive budget was an important contribution to its development.

The installation of a budget system can be viewed as an assumption of responsibilities by the government that require an organized executive authority as well as an

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<sup>1</sup>Charles G. Dawes, The First Year of the Budget of the United States (New York: Harper Bros. Publishers, 1923), pp. 18-19.

<sup>2</sup>Smithies, "Conceptual Framework," p. 30.



increased importance in government organized economic power in relation to privately organized economic power. As a result, the divisions between executive and legislative authority in the constitution as practiced by the government had to be altered before a budget system could be established. The federal budget system is considered revolutionary in this respect since it was a product of a fundamental change in the government structure.<sup>1</sup>

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<sup>1</sup>Burkhead, Government Budgeting, p. 29.





## CHAPTER II

### REFORMS IN THE BUDGETARY PROCESS, 1921-1955

#### Growth of the Bureau of the Budget

An evaluation of the Bureau of the Budget since passage of the Budget and Accounting Act of 1921 can be related to the changes that have occurred in the performance of two major characteristics of budget preparation: those of program review and management improvement. The Bureau's significance in program review has grown with the emergence of the Executive Office of the President in the federal government. In management improvement the Bureau's responsibility has changed over the last fifty years from initially a narrow concern with economy and efficiency to its present broader concern for effective administration.<sup>1</sup>

During the first decade in the history of the Bureau, economy and efficiency accomplished by balancing the budget, reducing the federal debt, and lowering taxes by reducing expenditures became the fiscal philosophy in governmental operations. The policy objective was to balance revenues and expenditures or at least to minimize the

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<sup>1</sup>Burkhead, Government Budgeting, p. 287.



surplus revenues.<sup>1</sup> The first director, General Dawes, conceived the role of the Bureau to be

. . . simply a business organization whose activities are devoted constantly to the consideration of how money appropriated by Congress can be made to go as far as possible toward the accomplishment of the objects of legislation. If it functions properly, it has not and can never have any purpose but that of the Executive and Congress in seeking the imposition, throughout the government administration, of correct business principles in routine business administration.<sup>2</sup>

Although many factors may be considered as contributing to the surpluses achieved, it should be noted that over the period 1924-1929 a debt reduction was accomplished using annual surpluses of over \$900 million.<sup>3</sup>

Until the early 1930's, the Bureau of the Budget continued to focus primarily on management improvement accomplished by a budget review that emphasized reduction in expenditures. The initial year of the New Deal brought no change in the Bureau's role or increase in its staff. Responsibility for many of the emergency relief and public works planning and coordinating functions were assigned to newly created agencies. The change came as a result of the report of the President's Committee on Administrative Management. The large quantity of federal programs in the 1930's and the recognition that improved procedures for control were required prompted the philosophy that the

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<sup>1</sup>Smithies, Budgetary Process, pp. 115-16.

<sup>2</sup>Vincent J. Browne, The Control of the Public Budget (Washington: Public Affairs Press, 1949), p. 91.

<sup>3</sup>Kimmel, Federal Budget and Fiscal Policy, p. 91.



President must be supported by a more adequate staff if he was to improve his capacity for effective management and policy formulation.<sup>1</sup> The role of the Bureau of the Budget as a staff agency was stressed by the President's Committee in 1937 as follows:

If the Bureau of the Budget is to develop into a serviceable tool for administrative management to aid the President in the exercise of over-all control, it needs greater resources and better techniques. . . . The Director of the Bureau of the Budget is one of the few Government officers in the position to advise the President from an over-all, as opposed to a bureau or departmental, point of view. He should therefore be relieved to the greatest possible extent from the minor details of administration. He should be released for duties of maximum importance to the President. . . . The Bureau of the Budget as a managerial agency of the President should therefore be made responsible for the execution, as well as the formulation, of the budget as a national fiscal plan.<sup>2</sup>

While the Committee did not specifically recommend that the Bureau be transferred from the Treasury Department, it did reject a task force proposal that the Bureau be strengthened within the Treasury Department. The Committee's stress on the presidential aspect of budgeting left no doubt about what was intended.<sup>3</sup>

Under the Reorganization Act of 1939, the Executive Office of the President was formally established and the Bureau of the Budget was transferred to it. There, with

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<sup>1</sup>Burkhead, Government Budgeting, p. 292.

<sup>2</sup>U.S., President's Committee on Administrative Management, Administrative Management in the Government of the United States (Washington, D.C.: Government Printing Office, 1937), pp. 17-18.

<sup>3</sup>Burkhead, Government Budgeting, p. 293.



its increased responsibilities, it emerged as the principal institutional staff arm of the President. The Bureau assists the President in the discharge of his budgetary, management, and other executive responsibilities. The responsibilities of the Bureau may be grouped under the functions of: (1) preparation and administration of the budget, (2) improvement of government organization and management, (3) improvement of financial management, (4) legislative analysis and review, (5) coordination and improvement of federal statistics.<sup>1</sup>

More specifically, the Bureau's functions as part of the Executive Office of the President are as follows:

1. To assist the President in the preparation of the budget and the formulation of the fiscal program of the Government.
2. To supervise and control the administration of the budget.
3. To conduct research in the development of improved plans of administrative management, and to advise the executive departments and agencies of the Government with respect to improved administrative organization and practice.
4. To aid the President to bring about more efficient and economical conduct of Government service.
5. To assist the President by clearing and coordinating departmental advise on proposed legislation and by making recommendations as to Presidential action on legislative enactments, in accordance with past practice.
6. To assist in the consideration and clearance, and where necessary, in the preparation of proposed Executive orders and proclamations, in accordance with the provisions of Executive Order No. 7298, of February 18, 1936 (later superseded by Executive Order No. 11030 of June 19, 1960 - 27 FR 5847).

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<sup>1</sup>U.S., Bureau of the Budget, The Bureau of the Budget: What It Is--What It Does (Washington, D.C.: Government Printing Office, 1966), p. 9.





7. To plan and promote the improvement, development and coordination of Federal and other statistical services.
8. To keep the President informed on the progress of activities by agencies of the Government with respect to work proposed, work actually initiated and work completed, together with the relative timing of work between the several agencies of the Government; all to the end that the work programs of the executive branch of the Government may be coordinated and that the monies appropriated by the Congress may be expended in the most economical manner possible with the least possible overlapping and duplication of effort.<sup>1</sup>

In consonance with the trend toward management orientation, the Bureau's staff was considerably increased, it developed the administrative management and statistical coordination functions that it still possesses, and it installed apportionment procedures for budget execution. The divisional organization as established in 1939 remained in effect without significant change until 1952.<sup>2</sup>

The expanded Bureau of the Budget was to be tested by government organizational and program problems faced during the years of World War II. The Bureau discharged major assignments in establishing emergency agencies, in planning and budgeting for military procurement, and in formulating programs for inflation control. The Bureau shared its responsibilities with other agencies in the Executive Office, the Office of Economic Stabilization, and the Office of War Mobilization and Reconversion. World War II was to prove

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<sup>1</sup>U.S., President, Executive Order No. 8248, September 8, 1939 (4 F.R. 3864).

<sup>2</sup>Smithies, Budgetary Process, p. 80.



the soundness of the role of the Bureau as a major agency of presidential management.<sup>1</sup>

The Hoover Commission Reports and  
the Performance Budget

At the close of World War II, the management orientation in federal budgeting was entrenched in all but one aspect--the classification of expenditures. In 1949, the recommendations of the Commission on Organization of the Executive Branch of the Government (Hoover Commission) called for changes in budget classification more in consonance with management orientation. The Commission found that

. . . the budget document itself, because of its size and complexity and its concentration on services and materials to be bought rather than programs to be undertaken, is a relatively ineffective tool of management.<sup>2</sup>

The Commission's report emphasized the weaknesses in the internal operation of the federal government in the fiscal area. It considered the budget and appropriation process the heart of management and control of the executive branch and found the system inadequate, poorly organized, and failing to predict planned costs with accuracy. With a view toward correcting the deficiencies, the Commission

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<sup>1</sup>Burkhead, Government Budgeting, p. 295.

<sup>2</sup>U.S., Commission on Organization of the Executive Branch of the Government, Concluding Report (Washington, D.C.: Government Printing Office, 1949), p. 8.



recommended "that the whole budgetary concept of the Federal Government should be refashioned by the adoption of a budget based upon functions, activities and projects."<sup>1</sup> This would focus attention on the program rather than on the objects to be acquired. It would improve management of and within the executive agencies as well as increase control over federal expenditures. To what had previously been known as functional or activity budgeting, the Commission gave the label "performance budgeting."<sup>2</sup>

There is no precise definition for performance budgeting. Authors have exhibited a tendency to make program budget and performance budget synonymous terms to describe the same things. Further terminology confusion has been increased with the association of the term "program budgeting" with the planning, programming, budgeting movement.<sup>3</sup> A performance budget has been broadly defined as

. . . one which presents the purposes and objectives for which funds are required, the costs of the programs proposed for achieving those objectives, and quantitative data measuring the accomplishments and work performed under each program.<sup>4</sup>

This definition implies a difference between measuring work accomplishment and measuring work performed. Work performed

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<sup>1</sup>Ibid.

<sup>2</sup>The Hoover Commission Report (New York: McGraw-Hill Book Co., Inc., 1949), pp. v-vii.

<sup>3</sup>Allen Shick, "The Road to PPB: The Stages of Budget Reform," Public Administration Review, December, 1966, p. 38.

<sup>4</sup>Burkhead, Government Budgeting, p. 142.



is the process or activity, while accomplishment becomes the end product. Performance budgeting increases the responsibility and accountability of management. Its principal focus is to aid management to assess the work-efficiency of operating units by (1) casting budget categories in functional terms, and (2) providing work-cost measurements to facilitate the efficient performance of prescribed activities.<sup>1</sup> Generally, the method of accomplishment is by the reduction of the work-cost data into discreet, measurable units. Early attempts at performance budgeting were made by federal agencies and local governments. What were called project budgets or program budgets were similar to that which is now called a performance budget. Although they met with limited success, they can be viewed as initial steps toward improving the necessary coordination between planning and budgeting.<sup>2</sup>

Following World War II, the federal government provided an increased impetus to performance budgeting. The fiscal 1948 budget of the Navy Department was submitted both on the traditional object basis and on a program basis. While the program basis was not accepted by Congress, the Navy's efforts influenced the work of the Hoover Commission and contributed to its recommendation for a performance budget. This recommendation became a legislative requirement with passage of the National Security Act Amendment of 1949

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<sup>1</sup>Shick, "The Road to PPB," p. 39.

<sup>2</sup>Burkhead, Government Budgeting, p. 134.





that required that the budget estimates of the Department of Defense:

. . . shall be prepared, presented, and justified, where practicable, and authorized programs shall be administered, in such form and manner as the Secretary of Defense, subject to the authority and direction of the President, may determine, so as to account for, and report, the cost of performance of readily identifiable functional programs and activities, with segregation of operating and capital programs.<sup>1</sup>

The Act further provided for the establishment of the Office of Comptroller in the Department of Defense and the services. The Comptroller was made the principal advisor to the Secretary of Defense on all budgetary, accounting, and statistical reporting matters. The Comptrollers of the services were given similar responsibilities within their departments and were provided the status and authority needed to permit them to promote better management. While the Act recognized the relationship of budgeting to past performance, it failed to recognize the important relationship of budgeting to planning and programming.<sup>2</sup>

Although the term "performance budget" did not appear in it, the Budget and Accounting Act of 1950 provided that the budget would be in such form and detail as the President determined. He was given explicit authority to prescribe the "contents, order, and arrangement of the

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<sup>1</sup>National Security Act Amendment, 1949, Pub. L. 216, sec. 403, 81st Cong., 1st sess., 1949.

<sup>2</sup>Smithies, Budgetary Process, p. 87.



proposed appropriations and the statement of expenditures and estimated expenditures contained in the Budget. . . ."<sup>1</sup> It appears evident that it was the Congressional intention to encourage performance budgeting.

The President applied these budgetary decisions to the military posture of the nation in 1951 by requesting the military services to submit their budget requirements in performance budget form. The services were given considerable latitude in rearranging their appropriation structures. The Navy's compliance reflects the similarity of events experienced by the other services. The Navy stressed broad programs that could be used for evaluation at the Department of Defense level. However, when implementing the existing programs within the existing bureau structure, the Navy found that it was necessary to fragment its operating and funding program. Cost of fleet maintenance and operation was a program administered by the Bureau of Ships. The cost of manning these ships was another program under Bureau of Naval Personnel. The development of the performance budget within the Navy, where programs paralleled the existing organizational structure, met the criteria of a budget that revealed functions but not true programs. The Bureaus, being contributors to the end products, presented a budget

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<sup>1</sup>Budget and Accounting Procedures Act of 1950,  
Pub. L. 784, 81st Cong., 2d sess., 1950.



structure based upon end products.<sup>1</sup> No single Bureau had total responsibilities for any single product.

Service-wide experience indicated that the results of implementing the new budget concept fell short of being a true performance budget. However, the budgeting and accounting structures of the military departments were simplified and made more uniform. The old appropriation categories under which the technical services of the Army and Naval bureaus had received and administered their own separate appropriations were replaced by broad classifications such as Personnel, Operation and Maintenance, Procurement, Research and Development, and Construction. This permitted comparisons between the military services and separated the one-year accounts from those of longer range.

A study of the military performance budget by Frederick Mosher in 1954 concluded that the budgets consisted of groupings of cost supporting elements rather than operating elements. He proposed a dual budget system consisting of a program budget for development, appraisal and approval of future policies and an administrative budget to facilitate internal programming, management and control.<sup>2</sup> The program budget would be prepared at the planning level and would integrate the budget and planning

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<sup>1</sup>Frederick C. Mosher, Program Budgeting, Theory and Practice (New York: American Book-Stratford Press, 1954), p. 85.

<sup>2</sup>Ibid., pp. 230-49.



function. It would reflect costs in terms of projects to be accomplished rather than items to be purchased. Statistical skill would require emphasis as opposed to accounting experience. The administrative budget would be prepared much in the same manner as the process in use at the time. Its importance, however, would be found in its internal use for planning and control. The heart of Mosher's thinking was that "the central idea of the performance budget . . . is that the budget process be focused upon programs and functions--that is accomplishments to be achieved, work to be done."<sup>1</sup>

In 1955, Arthur Smithies conducted a survey of the budget process for the Committee on Economic Development. Included in his recommendations was the basic proposal for both a program budget and an administrative budget.<sup>2</sup> During the same year a Second Hoover Commission expanded on the efforts of the original body. It met with the purpose of reviewing and evaluating the success of the performance budget and to recommend any necessary changes. Its Task Force on Budget and Accounting recommended:

That the executive budget continue to be based upon the function, activities and projects adequately supported by information on program costs and accomplishments, and by review of performance by organizational units where these do not coincide with performance budget classification.<sup>3</sup>

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<sup>1</sup>Ibid., p. 79.

<sup>2</sup>Smithies, Budgetary Process, pp. 257-65.

<sup>3</sup>U.S., Commission on Organization of the Executive Branch of the Government, Task Force Report, Budgeting and Accounting (Washington: Government Printing Office, 1955), p. 28.





Emphasis was to be placed on programs as well as on performance. The system proposed would enable future budgeting to be made on a cost basis and oriented toward results rather than procurements. As in the concept forwarded by the first Hoover Commission, the budget would be based on performance, or end results. The Commission further recommended that government accounting be accomplished on a cost accrual basis, which would provide necessary management information to enable the President and Congress to equate resources expended and results achieved. A year later, a close version of these proposals was enacted into law. Public Law 863 provided for cost-based budgets, an accrual accounting program, and a simplified allotment system. It is interesting to note that as late as December 1, 1968, only 37 per cent of the government agencies had complied with the provisions requiring an accrual-based system.<sup>1</sup>

The purpose of the preceding paragraphs has been to present the development of the budgetary process and its reforms in the federal government. This process directly relates to a discussion of planning, programming, budgeting presently in effect in the Department of Defense. Parallel-  
ing the development of the budgetary process in the government was a similar development in the Department of Defense. The following chapter is devoted to those

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<sup>1</sup>Class notes, Governmental Budgeting--PAd 251B, Naval Financial Management Program, 1969.



legislative enactments, executive directives and related procedures that created the environment that led to the planning-programming-budgeting system as it exists today.



## CHAPTER III

### THE EVOLUTION OF THE DEPARTMENT OF DEFENSE

#### Background

Since 1789 the nation has always had a single authority in control of its armed services. Article II, Section 2, of the Constitution provides that the President of the United States will be the Commander in Chief of the Army and Navy. This concept of single authority has not changed with the development of large armed forces with the capability to destroy nations. As C. W. Borklund comments:

America's organization for national security has evolved within the framework of its Constitution, its customs, and its traditions.. Powers bearing on national security are vested by the Constitution in the Government as a whole, and are shared primarily by the President and the Congress. Under a system of checks and balances, these . . . elements have developed distinctive patterns . . . in their concern for national security.<sup>1</sup>

While the President's military responsibility is the same today as it was in the past, there has been a drastic change in the organizational pattern of support for him in the execution of his responsibilities. During the first decade of the Republic, a single deputy, the

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<sup>1</sup>Borklund, Department of Defense, p. vi.



Secretary of War, was his sole assistant.<sup>1</sup> Then, in 1798, following the fleet buildup for the Barbary Coastal Wars, the Department of the Navy was established. For the next 150 years disputes between the two military departments were settled by the President alone. With the passage of the National Security Act of 1947 and the establishment of the Office of Secretary of Defense, the President once again acquired a single deputy for defense matters.<sup>2</sup>

In the years between 1798 and 1947 coordination of activities between the War and Navy departments was considered necessary only at the coast line. Those problems peculiar to the sea were a concern to the Navy and those of the land were in the domain of the Army. Since Army and Navy missions seldom overlapped, military policy was not a major concern. Further, except in time of war, the size of the departments was comparatively small and as a result the President was not unreasonably burdened with two separate military departments reporting to him. However, with the conclusion of each conflict involving our armed forces, proposals were made in the hope of achieving a closer coordination and consolidation between the services.<sup>3</sup>

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<sup>1</sup>Paul Y. Hammond, Organizing for Defense: The American Military Establishment in the Twentieth Century (Princeton: Princeton University Press, 1963), p. 26.

<sup>2</sup>U.S., Congress, National Security Act of 1947, Public Law 253, 80th Cong., July 26, 1947, in Committee Print, 85th Cong., 2d sess., 1958.

<sup>3</sup>Borklund, Department of Defense, p. 4.





In the immediate post-World War I period a great deal of interest was generated for unification of the armed services. There were two primary reasons for this. First was the high cost of the war coupled with the problems that were brought to light regarding the waste of time, money, and resources caused by conflicting demands on the nation's war materials from uncoordinated service demands. Secondly, the advent of a new technology, the combat aircraft, upset the traditional lines of demarcation between the jurisdictional areas of land and sea for the Army and Navy Departments. The early pioneers of military aviation led by General Mitchell made a concerted effort before Congress for a law establishing a third service and a Secretary of Defense responsible for all national defense.<sup>1</sup> As a result of the pressure for more efficiency and economy, more than a dozen studies and in excess of fifty bills and resolutions were presented to Congress between 1921 and 1945, essentially requesting a unified organization to handle military affairs.<sup>2</sup> Few of these bills ever went beyond committee investigation, none were approved, and the military establishment continued in status quo until after World War II.

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<sup>1</sup>Charles J. Hitch, "Decision-Making in the Department of Defense," A series of four lectures at H. Rowan Gaither Lectures by the Assistant Secretary of Defense (Comptroller), delivered at the University of California, Berkeley, April 5-9, 1965.

<sup>2</sup>Borklund, Department of Defense, p. 6.



As in previous conflicts, deficiencies in the armed forces were brought to light during the Second World War that generated further discussion of the idea of a single military establishment. The key factors behind the unification efforts, however, were the assumption of Free World leadership by the United States; the advance in technology with the development of the atomic bomb and ballistic missiles; the success of the combined operations during the war, and the increased costs of developing new weaponry as opposed to the public demand for economy in military spending. An objective appraisal would readily recognize the military as only one facet of a many-sided problem involving economic growth, internal security, foreign policy, and national goals.

The threat of a nuclear war demanded that careful, coordinated and thorough planning be accomplished for both preventive efforts and counterattack. Looking back on this period, W. W. Kaufmann wrote:

Heretofore, the tasks of the armed forces in peacetime had been primarily to maintain cadres of trained officers and men, to engage in mobilization planning, develop prototypes of the weapons they would like to order in quantity, and try to foresee the circumstances and places in which they would be called upon to fight. Each Service had had a [fighting] capability in being, especially the Navy; but these forces were rarely expected to become involved in major military operations until after America's friends had been precipitated into a war. . . . Now all this had changed. Contingency plans might have to be executed, forces in being might have to be used without a period of grace for mobilization.<sup>1</sup>

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<sup>1</sup>William W. Kaufmann, The McNamara Strategy (New York: Harper & Row, 1964), p. 186.



Economy had long been one of the supporting arguments for most proposals for military department unification, and it was in this atmosphere that President Truman engaged in his controversial efforts to unify the services as a measure to reduce costs and increase efficiency. He was later to write that he had

not fully realized the extent of the waste and inefficiency existing as a result of the operation of two separate and uncoordinated military departments until I became chairman of the special Senate committee created in 1941 to check up on the national defense program. I had long believed that a coordinated defense organization was an absolute necessity. The duplications of time, material, and manpower resulting from independent Army and Navy operations which were paraded before my committee intensified this conviction.<sup>1</sup>

These efforts were formalized under the President's leadership with the passage of the National Security Act of 1947.

#### The National Security Act of 1947

In a broad interpretation, the National Security Act of 1947 was to provide for the total defense needs of the nation. This was to be accomplished by the establishment of three levels of defense organization. The national security machinery consisted of the National Security Council and the National Security Resources Board at the apex, and the National Military Establishment under a Secretary of Defense located a level below.<sup>2</sup> The function

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<sup>1</sup>Harry S. Truman, Memoirs by Harry S. Truman, Vol. II: Years of Trial and Hope (New York: Doubleday, 1958), p. 46.

<sup>2</sup>U.S., Statutes at Large, XLI, 253, sec. 101, Title I, II.



of these agencies was to provide integrated policies and procedures for all departments of the government relating to national security. Both elements of the policy process, the ends and the means, had been provided by the Act. Policy would be determined in light of resource capability and resource planning would be related to policy objectives.

The National Security Council (NSC) would be responsible for advising the President on the coordination of domestic, foreign, and military policies relating to national security. Two duties were assigned the Council: first, to consider the nation's objectives, commitments, and risks, and to recommend action on the country's actual and potential military power; second, to recommend action on matters of common interest to federal activities concerned with national security.<sup>1</sup> The National Security Council became a means for making the President aware of the need for a decision and was devised to present to him ultimate solutions as well as the problems.

The National Security Resources Board would be responsible for advising the President regarding the coordination of military, industrial, and civilian mobilization. In peacetime it would be involved primarily in the review of the nation's resources and productive capacity.<sup>2</sup> In wartime the Board would develop for the President an optimum

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<sup>1</sup>Ibid., sec. 101.

<sup>2</sup>U.S., Congress, House, Committee on Government Expenditures, Hearings, 80th Cong., 1947, pp. 23, 372.





allocation of resources and production between civilian and military requirements. By controlling and allocating critical materials the board would insure consonance between military plans and material capacity. As with the National Security Council, the concept of operation of the National Security Resources Board was that the individuals bearing the responsibility to implement policy would participate in policy formulation.

The third level of defense organization established by the Act was the National Military Establishment, since renamed the Department of Defense. The operating level of the new establishment consisted of three separately organized and administered departments of Army, Navy, and Air Force. The Act further provided for the establishment of "unified commands in strategic areas";<sup>1</sup> however, no stipulations as to the chain of command were included. The Secretary of Defense, a civilian and principal assistant to the President in all matters relating to national security,<sup>2</sup> was assigned carefully enumerated duties. Powers and duties not specifically conferred upon the Secretary of Defense were retained by the individual service Secretaries.

From the viewpoint of the military, the National Security Act of 1947 can be considered a budget reform. The duties conferred on the Secretary of Defense were to have

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<sup>1</sup>U.S., Statutes at Large, LXI, 253, sec. 211.

<sup>2</sup>Ibid., sec. 202.



an impact upon the military budget process. They were (1) to establish general policies and programs for the national military establishment; (2) to exercise general direction, authority, and control over the establishment; (3) to eliminate unnecessary duplication or overlap in procurement, supply, transportation, storage, health, and research; and (4) to supervise and coordinate budget matters of the component activities, including formulation of budget estimates for the establishment.<sup>1</sup> The means had been established for a centralized review of the defense budget prior to Presidential approval and submission to Congress.

Impressive as the administrative responsibilities of the Defense Secretary might appear, his authority was tightly limited. Since his authority was only "general," the services insisted upon retaining a great deal. The service Secretaries were required only to inform the Secretary of Defense first, before they were permitted to present to the President, the Bureau of the Budget, and the Congress any reports, recommendations, or appeals they felt were necessary regarding the crucial requests for departmental budget funds. Thus, they could, and often did, bypass the Secretary of Defense. In effect, the National Security Act of 1947 created not a unified department but a confederation of

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<sup>1</sup>John C. Ries, The Management of Defense: Organization and Control of the U.S. Armed Forces (Baltimore: The Johns Hopkins Press, 1964), p. 102.



three military departments presided over by a Secretary of Defense with carefully enumerated powers.<sup>1</sup>

### Evolution and Reorganization, 1949-1958

The obvious weaknesses of the 1947 legislation led to Congressional and Executive action that sought to strengthen the position of Secretary of Defense. These were the 1949 amendments to the basic Act, the Reorganization Plan of 1953, and the Department of Defense Reorganization Act of 1958.

Limited defense budgets and interservice conflicts on the question of roles and missions characterized the years 1947-1949. The first Secretary of Defense, James Forrestal, recognized the relationship of the problem of the service roles and missions to the problem of budgetary allocation. It had become clear to him that the issue of service missions would have to be settled before the Joint Chiefs of Staff (JCS) could be expected to agree on a defense budget. Twice in 1948, at Key West and at Newport, he met with the JCS to consider the key question of roles and missions. The papers signed at the end of these meetings were nothing more than a compromise restatement of what each service considered its previous status. As a result, the Joint Chiefs did no more than endorse the proposals of each service.<sup>2</sup> An example of how far apart the services were in relation to overall national policy was evident in the defense budget for fiscal 1950.

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<sup>1</sup>Borklund, Department of Defense, p. 45.

<sup>2</sup>Ibid., p. 50.



A Presidential directive placed a ceiling of \$15 billion on the Department of Defense budget for fiscal year 1950. The services had only been able to agree on an absolute minimum of \$23.5 billion as necessary military funding to carry out their missions. Furthermore, the Secretary of Defense did not have the statutory power to order a resolution of the problem.<sup>1</sup>

Recognizing the deficiencies in the organizational structure, the Secretary, in his first annual report to the President, recommended that "the statutory authority of the Secretary of Defense should be materially strengthened . . . by making it clear that the Secretary of Defense has the responsibility for exercising 'direction, authority, and control' over the department and agencies of the National Military Establishment." Secretary Forrestal further recommended that the Secretary of Defense be the only representative of the National Military Establishment to sit on the National Security Council. Under the 1947 Act, the service Secretaries were not only Heads of Executive Departments but were members of the Council as well. No official action was taken on his report.<sup>2</sup>

Shortly after the Secretary's report, the Hoover Commission task force on National Security Organization

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<sup>1</sup>Ibid., p. 51.

<sup>2</sup>U.S., Department of Defense, First Report of the Secretary of Defense (Washington, D.C.: Government Printing Office, 1948), pp. 4-20.





submitted its report to Congress. The report said that the defense policy process was operating improperly and made the indictment that:

Presently, national policy is not emanating, clearly and firmly, from above and descending effectively through the chain of agencies for translation into an efficient economical military establishment measured against our national needs. As a result, the military have picked up the ball of national policy and are starting down the field with it. Just by being concerned about our national security--but at the same time with an eye to individual Service ambitions, they have sometimes made their own assessments and appraisals of our "objectives, commitments, and risks" and have translated them into their own ideas of our proper military strength.<sup>1</sup>

Further, because the individual agencies concerned with national security

are not performing their respective functions adequately, either individually or in relation to each other . . . instead of policy determining strategy, and strategy in turn determining its military implementation in terms of the size and nature of the military establishment, the tendency is in the reverse direction. To far too great an extent the unilateral arms and policies of the military services are combining to make the strategy they are supposed to serve, and the strategy is tending to make the national policy.<sup>2</sup>

The recommendations of the Hoover Commission task force closely resembled those of Secretary Forrestal and provided the impetus that resulted in Congressional enactment on August 10, 1949, of a public law, Title IV to the National Security Act of 1947. In addition to requiring performance budgeting for

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<sup>1</sup>U.S., The Commission on Organization of the Executive Branch of the Government, Task Force Report, The National Security Organization (Washington, D.C.: Government Printing Office, 1949), p. 38.

<sup>2</sup>Ibid., p. 39.



the first time in a governmental department, as discussed in Chapter II, it clarified and strengthened the role of the Secretary of Defense. The primacy of the Secretary of Defense as the principal assistant to the President on defense matters was stressed. The Army, Navy, and Air Force lost their status as executive departments and all that went with it. The Secretary of Defense was given a Deputy and three Assistant Secretaries; a Chairman was provided for the Joint Chiefs of Staff, and the Joint Staff was doubled.<sup>1</sup> One of the Assistant Secretary posts created was that of Comptroller, thus providing for uniform budget and fiscal procedures to be established for all the military departments and firm budget controls to be set in the Office of Secretary of Defense. The Comptroller's responsibilities under the Secretary of Defense were:

- A. To supervise and direct the preparation of the budget estimates of the Department of Defense and
- B. to establish or supervise the execution of
  - 1. Principles, policies, and procedures to be followed in connection with organizational and administrative matters relating to
    - (a) the preparation and execution of the budgets
    - (b) fiscal, cost, operating, and capital property accounting
    - (c) progress and statistical reporting
    - (d) internal audit.
  - 2. Policies and procedures relating to the expenditure and collection of funds administered by the Department of Defense and
- C. to establish uniform terminologies, classifications and procedures in all matters.<sup>2</sup>

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<sup>1</sup>U.S., Public Law 216, 81st Cong., August 10, 1949, in Committee Print, 85th Cong., 2d sess., 1958, pp. 33-40.

<sup>2</sup>Ibid.



The military manager of today is well acquainted with such names as Wilfred J. McNeil, Charles J. Hitch, and Robert N. Anthony, who were subsequently to perform the duties of Defense Comptroller. Many of the detailed considerations of military managers of today were to originate with these individuals.

Several developments over the next decade were to strengthen civilian authority over the military chiefs. On April 30, 1953, a reorganization plan for the Pentagon was submitted to Congress. Congressional willingness to look upon it favorably resulted from their awareness almost immediately after the Korean War of the resurrection of intensive battles over roles, missions, and money.

The plan, which was to become Presidential Reorganization Plan No. 6 of 1953, stressed the need for strengthened civilian control, improved strategic planning, and effectiveness with economy.<sup>1</sup> In transmitting this reorganization plan to Congress, the President made it clear that "no function in any part of the Department of Defense or any of its component agencies is to be performed independent of the direction, authority and control of the Secretary of Defense."<sup>2</sup> The old statutory agencies, the Munitions Board and the Research

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<sup>1</sup>Ries, Management of Defense, p. 152.

<sup>2</sup>U.S., Congress, House, Committee on Appropriations, Message from the President of the United States Transmitting Reorganization Plan No. 6 of 1953, Doc. No. 136, 83rd Cong, 1st sess, 1953.



and Development Board established in 1947, had proved unwieldy in handling their Korean War responsibilities and were abolished and their functions transferred to the Secretary of Defense, whose office was expanded from three Assistant Secretaries to nine. Further, the Secretaries of the military departments, in addition to being heads of their own respective departments, were to become "operating managers" for the Secretary of Defense.<sup>1</sup>

Centralized defense policy making, reduced budgets, new weapon technology, and the successful launching of the first man-made satellite by the Russians continued to generate sufficient pressure by 1958 for further reorganization of the Department of Defense. Signed into law on August 6, the Defense Department Reorganization Act of 1958 increased further the responsibilities and authority of the Secretary of Defense, especially in respect to the operational direction of the armed forces and in the area of research and development. The services were no longer to be "separately administered" and instead were only to be "separately organized." A new post of Defense Research and Engineering was created not only to "supervise" research and development activities but to "direct and control" those activities needing centralized management.<sup>2</sup> Further, in the 1958 reorganization the military departments which had been acting as executive agents in the operational

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<sup>1</sup>Borklund, Department of Defense, pp. 65-66.

<sup>2</sup>U.S., Department of Defense Reorganization Act of 1958, Pub. L. 850,599, Rept. No. 123, 85th Cong., 2d sess., 1958, p. 6.





control of the unified and specified commands were removed from the chain of command. The command line now runs from the President to the Secretary of Defense, through the Joint Chiefs of Staff, to the unified commands.<sup>1</sup>

In sum, the eleven-year evolution from a Defense confederacy to a federal form of centralized control strengthened the position of the Secretary of Defense by providing tight financial controls, stronger and more direct lines of communication and command, and an increase in Assistant Secretaries to handle specific areas. Furthermore, the Secretary was provided broad authority, subject to Congressional veto, to transfer, reassign, abolish, and consolidate major combat functions, and, without prior Congressional review, to reassign noncombat functions and assign new weapon systems to a service for production, procurement, and operational control. Today, virtually the only statutory limitations on the Secretary's authority are a prohibition against merging the military departments or creating a military staff for himself besides the JCS.<sup>2</sup>

These changes greatly enhanced the authority of the Secretary of Defense as the true operating head of the Defense Department; however, it was not until 1961 that the full powers of the Secretary of Defense to run the department on a unified basis were actually used.

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<sup>1</sup>Ibid., p. 8.

<sup>2</sup>Stanley L. Falk, National Security Management: The National Security Structure (Washington, D.C.: Industrial College of the Armed Forces, 1967), p. 79.



## CHAPTER IV

### PLANNING, PROGRAMMING, BUDGETING IN THE DEPARTMENT OF DEFENSE 1961-1970

#### The Defense Budgetary Process Before 1961

Prior to 1961, military planning and financial management within the Department of Defense were treated as independent activities. Military planning fell within the purview of the Joint Chiefs of Staff and the planning organizations of the military departments. Financial management, based on Congressional appropriation codes such as pay, operations and maintenance, or procurement and budgeted for the next succeeding year, was the function of the Comptroller. As a consequence the Secretary of Defense found himself in a position each year where he had, at least implicitly, to make major decisions on force programs with insufficient or inadequate information.<sup>1</sup> Furthermore, each year the plans and programs of each service had to be cut back severely to fit the budget ceilings. This was accomplished by program cancellations or postponements for that year. Unrealistic plans continued to grow beyond the budget year in the hope that the next year the budget ceiling would be higher.

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<sup>1</sup>Hitch, "Decision-Making in the Department of Defense," p. 33.



These deficiencies did not go unnoticed. A 1958 Rockefeller report recommended a move toward a program budget which would correspond more closely to a coherent strategic doctrine.

It should not be too difficult, for example, to restate the presentation of the Service budgets, so that instead of the present categories of "procurement," "operations and maintenance," "military personnel," etc., there would be a much better indication of how much goes for example, to strategic air, to air defense, to anti-submarine warfare, and so forth.<sup>1</sup>

In the summer and fall of 1959, Representative George Mahon, Chairman of the House Defense Appropriations Subcommittee, addressed two letters to the Secretary of Defense. His first letter stressed the importance of looking at the Defense budget in terms of major military missions, by grouping programs and their costs by mission. His second letter called for "more useful information and for a practical means of relating costs to missions."<sup>2</sup> Other students of the Defense management problem, notably the Rand Corporation, were to reach a similar conclusion. The blueprint for such a system was published by Rand in March, 1960, entitled The Economics of Defense in the Nuclear Age by Charles J. Hitch and Roland McKean. This publication presented a detailed treatment of the previously mentioned

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<sup>1</sup>Rockefeller Brothers Fund, International Security: The Military Aspect, Report of Panel I of the Special Studies Project (Garden City, N.Y.: Doubleday, 1958), pp. 58-59.

<sup>2</sup>Charles J. Hitch, Decision-Making for Defense (Berkeley, Calif.: University of California Press, 1965), pp. 26-27.



gap in the management of the nation's defense effort. Moreover, the author dealt at length with the proposition that the information available to managers in the Department of Defense was incompatible with the decisions which were to be formulated based on this information. Concurrently with the pressure for budgetary reform within the Defense Department was the recommendation made by Senator Jackson's Subcommittee on National Policy Machinery, at the end of 1960, calling for "more vigorous employment of the broad authority already vested in the Secretary of Defense."<sup>1</sup> The ascendancy to the Presidency of John F. Kennedy in 1961 and his appointment of Robert S. McNamara as Secretary of Defense were to bring the forcefulness recommended by the Jackson committee and a new system designed to more effectively allocate resources available for defense.

The Department of Defense Program-  
Budget System, 1961-1969

The new Secretary of Defense was directed by the President "to determine what forces were required for national defense and to procure and support them as economically as possible."<sup>2</sup> McNamara appointed Charles J. Hitch to be the Assistant Secretary of Defense (Comptroller)

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<sup>1</sup>Samuel A. Tucker, National Security Management: A Modern Design for Defense Decision: A McNamara-Hitch-Enthoven Anthology (Washington, D.C.: Industrial College of the Armed Forces, 1967), p. 12.

<sup>2</sup>Robert S. McNamara, "Managing the Department of Defense," Civil Service Journal, IV, No. 4 (April-June, 1964), 1-5.





and to initiate efforts to coordinate a management system compatible with his desires. Both men felt that financial management within the Pentagon had as its greatest weakness the lack of data needed "to make the really crucial decisions, particularly on the major forces and weapon systems needed to carry out the principal missions of the Defense Establishment."<sup>1</sup>

Accordingly, to purify the information available by bridging the gap between military planning and budgeting, Hitch employed a concept called "programming."<sup>2</sup> The result was the installation in 1961 of a unified planning-programming-budgeting system. Its purpose was to integrate all three interrelated phases of the decision-making process--planning, programming, and budgeting--together with the related activities of progress reporting, control, and evaluation.

Devised in an effort to tie all facets of the Defense effort together, the system relates national security objectives to strategy, strategy to forces, forces to resources, and resources to costs, all within the same conceptual framework and all projected several years into the future. The key element of the process was the Five

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<sup>1</sup>U.S., Congress, Senate, Committee on Government Operations, Organizing for National Security (Washington, D.C.: Government Printing Office, 1961), Part VIII, p. 1005.

<sup>2</sup>Hitch, "Decision-Making in the Department of Defense," p. 37.



Year Force Structure and Financial Program, which was designed to aid the programming function at the highest Department of Defense level.

To facilitate the decision-making process, emphasis was placed on program elements. A program element is defined as:

A description of a mission by the identification of the organizational entities and resources needed to perform the assigned mission. Resources consist of forces, manpower, material quantities, and costs as applicable.<sup>1</sup>

Every Department of Defense activity falls within one of the program elements. Related groups of program elements that support one another or have a common mission are grouped into major programs.

In June, 1966, the composition of Hitch's original nine major programs was modified, as well as the name of the Five Year Force Structure and Financial Plan to Five Year Defense Program. This plan is the official program for the Department of Defense. The programming system provides the means for submission, review, record keeping, and decision-making on the Defense program. The planning, programming, resource, materiel and financial management systems of all Department of Defense components are correlated with the programming system.

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<sup>1</sup>U.S., Department of Defense, The Planning, Programming and Budgeting System, Department of Defense Instruction 7045.7, October 29, 1969.



The ten major programs are as follows:<sup>1</sup>

1. Strategic Forces.--Consists of strategic offensive, strategic defensive and civil forces.
2. General Purpose Forces.--Consists of force-oriented program elements other than those in Program 1, including the command organization associated with these forces, the logistics organizations organic to these forces, and the related logistics and support units which are deployed or deployable as constituent parts of military or naval forces and field organizations.
3. Intelligence and Communications.--Consists of missions and activities directly related to combat forces, but not a part of any of the forces listed in Program 1 or 2, on which independent decisions can be made. Includes resources for primarily national or centrally directed Department of Defense objectives for intelligence and security; specialized missions such as weather service, aerospace rescue/recovery, and oceanography.
4. Airlift-Sealift.--Consists of airlift, sealift, and other transportation organizations. Includes command and logistics and support units organic to these organizations; costs are net after deduction of revenue from users.

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<sup>1</sup>U.S., Department of Defense, Planning Programming Budgeting, A pamphlet issued by The School of Systems and Logistics and the Defense Weapons Systems Management Center, Air Force Institute of Technology, Wright-Patterson Air Force Base, Ohio (The Ohio State University Research Foundation, 1969), pp. 35-37.



5. Guard and Reserve Forces.--Elements are arranged by program (Strategic Forces, General Purpose Forces, Intelligence and Communications, Airlift and Sealift, Central Supply and Maintenance, Training, Medical and other personnel activities, and Administration and associated activities, in order to facilitate relating guard and reserve forces to the active forces.

6. Research and Development.--Includes all research and development activities which are not related to items that have been approved for procurement and deployment. These latter costs appear in appropriate elements in other programs.

7. Central Supply and Maintenance.--Consists of supply and maintenance that is not organic to other program elements. Includes non-deployable supply depots and maintenance depots both industrially funded and non-industrially funded.

8. Training, Medical and Other General Personnel Activities.--Consists of training, medical, and other activities associated with personnel, excluding training specifically identified with another program element, and excluding housing, subsistence, medical, recreational and similar costs that are organic to another program element (such as base operations).

9. Administration and Associated Activities.--Consists of resources for the administrative support of departmental and major administrative headquarters, field commands and





administrative activities (not elsewhere accounted for), construction support activities and miscellaneous activities.

10. Support of Other Nations.--Includes the costs involved in Military Advisory Groups, military assistance and military sales programs.

The program budget as installed by Hitch and McNamara in the Department of Defense was not intended to replace the traditional appropriation line item budget submitted to Congress. The Defense budget was presented by the Secretary of Defense to Congress in major program categories followed by a translation of these programs into their appropriation categories by the Defense Comptroller. The relationship between the program elements and the traditional functional accounts was utilized as the cross-walk for converting the military funding requirements developed under the program approach into the additional line item accounts of the existing budget. The two systems combined to provide a total picture of the sources and their uses in the defense establishment. For the first time, the relation of resource requirements to resource availability and the full implications of the total defense program was possible.<sup>1</sup>

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<sup>1</sup>U.S., Department of Defense, Study Report on the Programming System for the Office of the Secretary of Defense (Washington, D.C.: Office of the Assistant Secretary of Defense [Comptroller], 1962), pp. I-3-II-4.



Supporting and Dissenting Views

The movement toward the planning, programming, budgeting (PPB) system within the defense department can be viewed in the context of the growth of power of the Secretary of Defense over the various departments as well as the high esteem President Johnson held for Secretary of Defense McNamara. The new process was utilized in the preparation and presentation to the members of the Armed Services and Appropriation Committees of the fiscal year 1963, 1964, and 1965 defense budget. Implementing the system within the defense department did not require significant changes in the Congressional budgetary process. Further, it contained the elements necessary for rational decision-making favored by Secretary McNamara. Charles Hitch's words reflect the feeling of importance of the planning, programming, budgeting process within the Office of the Secretary of Defense:

With this management tool at his command, the Secretary of Defense is now in a position to carry out the responsibilities assigned to him by the National Security Act, namely to exercise direction, authority, and control over the Department of Defense--and without another major reorganization of the defense establishment.<sup>1</sup>

A further viewpoint on the value, importance, and success of the planning, programming, budgeting system in the Department of Defense has been expressed by William W. Kaufmann:

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<sup>1</sup>Hitch, Decision Making for Defense, p. 39.



The planning-programming-budgeting system had worked remarkably well in three different aspects. It had provided the Secretary with a much clearer and more meaningful representation of the department's vital functions than was ever available, and it had enabled him to relate and compare competitive and complementary activities much more readily than by the examination of separate service budgets drawn up according to the traditional accounts. The system also gave a sense of order and perspective to the annual budget cycle with its emphasis on a five year plan and program change proposals. Above all, it provided a common format and language for the Services and obliged them to think in terms of major missions of interest to the development as a whole rather than simply of their own separate functions.<sup>1</sup>

In August, 1965, President Johnson instructed his cabinet members and heads of agencies to introduce the new planning-programming-budgeting throughout the government. Shortly thereafter, the Bureau of the Budget issued general instructions to all major federal departments and agencies to assist in establishing the system. These instructions defined the budget as a financial expression of a program plan. Documents related to the preparation and justification of the budget submission emphasized, as the more important factors for inclusion, the setting of goals, definition of objectives, and the development of planned programs for achieving the goals.

Prior to implementing the new system, the budget process was seen to have the following disadvantages:<sup>2</sup>

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<sup>1</sup>Kaufmann, The McNamara Strategy, pp. 290-91.

<sup>2</sup>U.S., Bureau of the Budget, Bulletin 63-3, October 12, 1965; and Bulletin No. 63-3, Supplement, February 21, 1966.



1. Program review was accomplished in too short a period.
2. Objectives and programs of agencies often lacked clarity.
3. Accomplishments were not completely measured.
4. Alternatives were insufficiently presented for consideration by top management.
5. Future year costs were not presented in a manner permitting a complete examination.
6. Formalized planning and system analysis were not being included in the budgetary process.

These disadvantages were to be overcome by the PPB system in each agency that would be made to provide more effective information and analysis to assist the middle manager decision makers, as well as the agency head and the President, in deciding on which resources would be allocated between competing programs. The improved system was intended for year-round use; however, its results were to be especially visible during the spring preview of the budget by assisting in the provision of more informed and coordinated budget recommendations.

Essentially, the new Planning-Programming-Budgeting system was based on three concepts: First, within each agency an analytic capability would exist which would permit in-depth analyses of the agency's objectives and its programs to meet these objectives. Second, there would exist





a multi-year Planning and Programming process that would include the use of an information system for the presentation of pertinent data essential to the making of major decisions by agency heads and the President. Third, there would exist a Budgeting process which could take broad program decisions, translate them into decisions in a budget context, and present the appropriate program and financial information for Presidential and Congressional action.<sup>1</sup>

Allen Schick, a Research Associate at the Brookings Institution, has followed the planning-programming-budgeting system since its inception. He maintains a viewpoint that there may be constraints placed upon the program budget system in the area of politics and decision making.

The conservatism of the political system . . . tend to minimize the decisional differences between traditional and PPB approaches. However the availability of analytic data will cause a shift in the balance of economic and political forces that go into the working of the budget.<sup>2</sup>

Schick further contends that in the area of decision making emphasis on the planning function will result in the greater centralization of policy making with the Bureau of the Budget assuming the central role.<sup>3</sup>

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<sup>1</sup>Fremont J. Lyden and Ernest G. Miller, eds., Planning, Programming, Budgeting: A Systems Approach to Management (Chicago: Markham Publishing Co., 1967), p. 406.

<sup>2</sup>Schick, "The Road to PPB," in ibid., p. 49.

<sup>3</sup>Ibid., p. 50.



By 1968, Schick wrote that PPB was premature in that it was introduced governmentwide before the concepts, organizational capability, political conditions, and informational resources and techniques were adequately developed.<sup>1</sup> Bertram Gross agrees with Schick and points out that as early as 1965 top officials within the Bureau of the Budget felt that the conceptual tools of PPB needed slow and careful development despite their long historical background. The President vetoed a staff recommendation limiting the new system during the early years to the few agencies more advanced in program planning.<sup>2</sup>

Schick and Gross also are in agreement in asserting that PPB gives inadequate attention to the area of political bargaining and as such runs counter to the way budgeting has been practiced in this country for more than half a century.<sup>3</sup> It is interesting to note that Dror takes issue with Gross and Schick in that neither view PPB as a part of a policy making system. It is Dror's contention that PPB must be considered within the broad framework of efforts to improve the policy making system:

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<sup>1</sup>Allen Schick, "PPB's First Years: Premature and Maturing," Mimeographed paper (Washington, D.C.: The Brookings Institution/U.S. Bureau of the Budget, September, 1968).

<sup>2</sup>Bertram M. Gross, "The New Systems Budgeting," Public Administration Review, March-April, 1969, p. 117.

<sup>3</sup>Ibid., p. 127; and Allen Schick, "Systems Politics and Systems Budgeting," Public Administration Review, March-April, 1969, p. 150.



Only such a framework can provide us with the perspective for understanding the present difficulties of advancing PPB and with a basis for better prescription. The absence of such a framework is the missing link . . . in most of the efforts to introduce and advance PPB in public administration.<sup>1</sup>

The foregoing are representative of the views expressed concerning the planning, programming, budgeting system since its innovation. Few studies have been accomplished that were empirically based and aimed at identifying the factors contributing to the utilization of PPBS within particular agencies. The first research accomplished with this objective of identifying the factors in sixteen domestic federal agencies was undertaken in mid-1968 by the Bureau of the Budget. Factors that appeared to affect the implementation and utilization of PPBS were studied through interview, questionnaires, analyses of the agencies' formal and informal organizational structure, and data on personnel identified as being PPB analysts. This study found that:<sup>2</sup>

1. In most agencies, policy analysis was not being performed much differently than it was before the advent of PPB.

2. There was a wide variance in the rate agencies elected to emphasize analytic capability or the process for integrating analytic output with decision making.

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<sup>1</sup>Yehezkel Dror, "PPB and the Public Policy-Making System: Some Reflections on the Papers by Bertram M. Gross and Allen Schick," Public Administration Review, March-April, 1969, pp. 152-54.

<sup>2</sup>Edwin L. Harper, Fred A. Kramer, and Andrew M. Rouse, "Implementation and Use of PPB in Sixteen Federal Agencies," Public Administration Review, November-December, 1969, pp. 623-32.



3. The relative effectiveness of an agency's PPB efforts was directly related to the degree of actual support and use of PPB by the agency head.

4. Agencies exhibited a degree of uncertainty regarding whether PPB was intended to be used as a management tool within the agency or primarily to fulfill the requirements of the Bureau of the Budget. When perceived as a tool of management, an agency generally made more progress toward the integration of analyses with decision making.

It is interesting to note that some agencies headed by highly political people used PPB as a tool for greater centralized policy control over semiautonomous organizations which had already formed satisfactory relationships with their Congressional committees. Other agencies used only those aspects of PPB they desired, while still others failed to offer even token support to the more analytic-based decision-making process.

The answer to the question as to why there has been a successful introduction and subsequent utilization of planning, programming and budgeting in the defense department and apparently unsuccessful implementation governmentwide may have been provided by Frederick Mosher. It is his belief that the benefits to be derived from the potential effects on power distribution within the government are as important as the technical improvements which the system has generated:





Most of the government lacks the "unitaryness" of the Department of Defense where the decisive power of the Secretary was enhanced by PPBS and at the same time contributed assurance of authoritative treatment of PPBS findings. But this is hardly possible in fields like education, foreign affairs, natural resources and many others.<sup>1</sup>

### Prospects for the Future

Early in 1969, Dr. William Niskanen, Director of the Program Analysis Division, Institute for Defense Analysis, recommended an improved defense management program that included the following:<sup>2</sup>

1. That the Office of Secretary of Defense provide the Services with "explicit, political and budget guidance."

2. That the "efficiency decisions"--those decisions concerning "planned composition of forces to meet a given defense output"--be made by a joint-Service military planning group rather than within the Office of the Secretary of Defense.

3. That the burden of proof be imposed on the Office of the Secretary of Defense (OSD), rather than on the Services, that any other alternative is preferable to the specific force proposals advanced by the joint-Service planning group.

That these recommendations received consideration is evident in the revised Planning, Programming, Budgeting

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<sup>1</sup>Frederick C. Mosher, "Communications," Public Administration Review, March, 1967, p. 60.

<sup>2</sup>William A. Niskanen, "Defense Management After McNamara," Armed Forces Journal, February 8, 1969.



system initiated by Secretary of Defense Melvin Laird for the fiscal year 1972 Defense budget formulation. This revision emphasizes:<sup>1</sup>

1. More flexible force-level guidance with more specific fiscal guidance to the Services.

2. Better Service participation in the planning, programming, budgeting cycle, with more Service freedom in allocation of proposed resources, but also more responsibility for efficient and economic management of resources.

3. A major shift in planning responsibility from the Defense Systems Analysis secretariat back to the Services where it was in the pre-McNamara days.

4. A shift in the planning, programming, budgeting sequence to initiate budget cutting much earlier in the time cycle, and with the Services having a much greater say in the budget-cutting process.

5. More stringent cost controls throughout.

Although some aspects of the new planning, programming, budgeting process were implemented earlier in the preparation of the fiscal year 1971 budget, submitted by the Services to Defense in September 1969, the full impact of the new system will not be known for a number of years.

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<sup>1</sup>James D. Hessman, "Services Get Greater Say in New Budget Plan," Armed Forces Journal, CVII, No. 5 (October, 1969), pp. 20-21.



The nine major steps in Secretary Laird's fiscal year 1972 planning, programming, budgeting cycle are:<sup>1</sup>

1. On October 10, 1969, the Joint Chiefs of Staff would submit to the Office of the Secretary of Defense Volume I (Strategy) of the FY 72-79 Joint Strategic Objectives Plan (JSOP) consistent with the national security objectives established by the President and the National Security Council. The JSOP will lay out a force level plan for eight future years and an estimated personnel and budget plan for five of these years.

2. On December 8, 1969, the Secretary of Defense would issue to the Service Secretaries, the Joint Chiefs of Staff, and the Defense Agencies a tentative "for comment" Strategic Concepts Memorandum (SCM) containing the guidelines to be used in the budgetary process.

3. On January 15, 1970, the Secretary of Defense would issue a "for comment" Fiscal Guidance Memorandum (FGM) for each of the next five program years. This document informs the Services how much they can expect to spend to carry out their planned programs.

4. On February 18, 1970, the Joint Chiefs of Staff would submit Volume II (Analyses and Force Tabulations) of the "unconstrained" JSOP, which is a detailed analysis of what the Joint Chiefs of Staff need in specific forces to meet the expected threat over the next five years.

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<sup>1</sup>U.S., Department of Defense, Planning Programming Budgeting (1969).



While JSOP Volume II will not be limited by great constraints, it will show the cost implications of both the major forces and the support categories.

5. On March 4, 1970, following review of JSOP Volume II and the comments from the Joint Chiefs and the Service Secretaries on the "for comment" Fiscal Guidance Memorandum, the Secretary of Defense would issue "tentative" Fiscal Guidance for the FY 72 budget. Such guidance will be broken down by major force and support category, and by Service for each of the next five fiscal years. While the Service Secretaries and the Joint Chiefs will still have the opportunity for reclama and reallocation action, the total budget planned for each year and for each Service will be quite firm. This is the first point at which strategic and fiscal policy are coordinated into one document. It also represents the decision point at which inter-Service disputes must be settled.

6. On April 22, 1970, the Joint Chiefs would submit to the Secretary of Defense their recommended Defense Program, including force level recommendations, rationale, and the risks imposed by scaling down force levels in accordance with the Fiscal Guidance Memorandum in Step 5.

7. On May 22, 1970, following consideration of the Joint Chiefs' recommended Defense Program, the Service Secretaries would submit to the Secretary of Defense their detailed Departmental force level and support program





recommendations, with their rationale and risk assessments within the same fiscal guidance used by the Secretary in Step 5. These recommendations will be in a Program Objectives Memorandum (POM) and will cover the same ground as the JCS Defense Program; however, the force elements will be spelled out in greater detail. Tradeoffs in various force level elements may be proposed by the Service Secretaries within established guidelines. Any differences between the Program Objectives Memorandum and the JCS Defense Program will be identified and costed in the POM.

8. By July 15, 1970, the Secretary of Defense, after evaluation of the Joint Chiefs' Defense Program and the POM's, would issue draft decision papers to the JCS and the Service Secretaries for comment. The Secretary will make final Program Decisions during July and will finish by August 31.

9. On September 30, 1970, the Services would submit to Defense their budget estimates based on the approved program resulting from the effects of all Secretary of Defense decisions made through August 31. The OSD Comptroller and the Bureau of the Budget will "fine tune" the budget for submission by the President to Congress in January 1971.

This new system reflects the opportunity for the Services to have a greater voice in the planning process than in previous years. Furthermore, the Services have been



given a much greater voice in determining how the money that is available will be spent. Whether the changes in the system will result in greater efficiency by the Services in their use of resources must remain a subject for discussion in the future.

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## CHAPTER V

### SUMMARY AND CONCLUSIONS

Planning, programming, budgeting within the government has been part of an evolutionary process within which federal budgetary techniques have developed. While it might be viewed as a giant step, it is still a part of a development that has been in process for over fifty years. In the formative years of the government, Alexander Hamilton established a central executive budget. The executive initiated and supervised the execution of all funds made available by the Congress for the entire federal government. The broad discretion in these early budgetary arrangements given to the executive provided a potential for a centrally planned budget and, after a deliberate study, the allocation of resources among competing agencies. However, with the presidency of Thomas Jefferson, the concept of an executive budget with relatively broad appropriation categories was replaced by detailed Congressional supervision over the objects of expenditure.

During the period from 1800 to 1921, Congress was principally concerned with limiting the power and discretion of the executive by specifying appropriations in great detail. Lack of any central administrative control mechanism led to



the growth of deficiency appropriations. Neither efficient execution of programs nor the pursuit of long-range objectives was a primary concern.

The first major change in the federal budgetary system came with the Budget and Accounting Act of 1921 and the establishment of the executive budget. Control appeared to be the motivating factor behind this Act. The improvement of economy and efficiency through better control over expenditures became the goal. Under this Act the President became responsible for the submission of budget requests of the various agencies in the executive branch of the government. This was an extreme change from the previous policy of fragmentation, where each department requested funds directly from Congress. Furthermore, the Bureau of the Budget was established in the Treasury Department to provide the necessary coordination and control of expenditures and revenues. During the 1920's the Bureau of the Budget concentrated its efforts toward carrying out this financial control function. Budgeting in the period was completely divorced from policy making and program decisions.

The expanded activities of the government and the increase in federal agencies under the New Deal of the 1930's were to lead to the next step in budget reform. Under the Reorganization Act of 1939, the Bureau of the Budget was moved from the Treasury Department to the newly created Executive Office of the President. During the next fifteen





years the Bureau's efforts were devoted to administrative management that included the administration of World War II activities.

By 1949 improvements in managerial efficiency were recommended by the first Hoover Commission to replace budgeting by objects of expenditure with "performance budgeting." Appropriations and expenditures would be classified according to the type of activity conducted rather than by objects of expenditure. Within each activity program managers would be free to shift the resources to insure maximum efficiency. It was later to be questioned whether these appropriations adequately revealed the purposes of the Defense activity. A growing need for a more informative classification would be the primary motivation of the programming system. As a result of the Hoover Commission report work measurement programs were inaugurated. To improve the efficiency with which programs were executed was the aim of the Budget and Accounting Procedures Act of 1950. This reform directed that improvements be made in accounting systems that would secure better cost data for each activity or work unit.

Where the budget reforms of the 1920's were directed toward the financial control function, the reforms immediately preceding and following World War II were directed toward managerial efficiency. Primary emphasis in both periods, however, was given to the efficient use of resources to carry out approved programs.



From a military viewpoint, the National Security Act of 1947 can be considered a budget reform, for it created the Department of Defense and the quasi-unification of the Armed Services from which evolved the centralization of power necessary for a programming budget. Despite the creation of the Department of Defense, however, the Defense budget consisted essentially of budgets for the three separate Services. The total funds received were arbitrarily shared by the Services rather than by consideration of the contributions of the Services to the defense program in total or by consideration of programs that cut across Service lines. The 1949 Amendment to the National Security Act provided for the position of Comptroller in the Department of Defense, thus enhancing administrative control through centralization of the budgetary process. The structural reorganizations within the Defense Department in 1953 and 1958 focused on the need for economy and efficiency through improved long-range planning and granted broad authority to the Secretary of Defense to achieve this goal.

Compared with the budget process that existed prior to defense unification, the budget system of the 1950's was a significant advance. It had provided a limited means for translation of military planning into the requisite materiel, manpower, and other resources. It was an effective instrument of information and a significant means for the Secretary of Defense to exercise control. Furthermore, the appropriation



structure of this system was simpler and more uniform than that which existed earlier.

Recognition that military planning tended toward a unilateral service basis in the ordering of forces, weapons systems and activities in the 1950's led students of budgeting to propose changes. These changes advanced proposals for a program budget that would aid in development, appraisal and authorization of future policies and programs at top levels. Thus, the Department of Defense became the testing ground for a planning, programming, budgeting system in the federal government.

Secretary McNamara and his first Comptroller, Charles J. Hitch, implemented reform by establishing a programming process to precede the budget formulation stage. This process essentially consisted of maintaining a five-year program, subdivided into output oriented program elements that would provide a firm basis for budget formulation and other resource connected management activities.

The programming system with its emphasis on systems analysis provided the factors that McNamara considered necessary for making crucial decisions, particularly decisions on forces and weapons. Although the budgets were in balance with the defense program as approved by the Secretary of Defense, all the programs advanced by the Services were not covered and significant differences of opinion as to the adequacy of budget levels arose. However, the benefits



of the programming system in the Department of Defense were widely recognized, and in August 1965 the President established the system on a governmentwide basis, where it has met with limited success.

From 1966 to 1969 the trend in Defense budgetary reform concentrated on economy and efficiency. Modifications in the programming system were made; however, it retained its major features of an output oriented five-year program; review of major issues by the Joint Chiefs of Staff, the Office of the Secretary of Defense, and the Services; and a program adjustment procedure to keep the five-year program current throughout a given year. Emphasis on systems analysis to aid decision makers pervaded the entire process. This planning, programming, budgeting system within the Department of Defense survived not only a change in Secretaries but a change in administration as well. The basic cycle has remained under President Nixon and Secretary Laird. However, the cycle has been altered so that the military services and the Joint Chiefs of Staff now hold major responsibility for planning force structure, and systems analysts have assumed the role of reviewers of the military plans rather than the initiators of plans as in the McNamara era when the Services were charged primarily with implementation. With the fiscal year 1972 budget formulation the Services and the Joint Chiefs of Staff have been provided with both fiscal and broad strategic guidance





early in the budget cycle, and the Services are permitted to make decisions within those guidelines.

The search for a more perfect budgetary process is an unending one. Pressures for more economy and efficiency in government operations have initiated budget reforms in the past and will continue to do so. It is still too early to tell whether a new and better way to manage the nation's defense affairs has been found.



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